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Ecuador Lowers Taxes to Promote Agricultural Exports

Report Categories:

Agriculture in the News

Policy and Program Announcements

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Report Highlights:

On February 7, 2015, Ecuador's President Rafael Correa announced during his weekly televised address that his government will provide export incentives to Ecuadorian agricultural product exporters. Incentives reportedly include a drawback (i.e., a tax refund) and a reduction in bureaucratic paperwork needed to obtain export permits and documentation. Exports of non-traditional products (i.e., fresh flowers) will benefit from a five percent tax reduction based on freight-on-board (FOB) declared values, while tuna exports will see a three percent tax reduction. Exports of traditional agricultural products such as bananas will experience smaller tax breaks, dependent on the export destination. U.S. imports from Ecuador in calendar year (CY) 2014 (January-December) reached a record high of \$2.3 billion, up 17 percent compared to 2013.

General Information:

On February 7, 2015, Ecuador's President Rafael Correa announced during his weekly televised address that his government will provide export incentives to Ecuadorian agricultural product exporters. Incentives reportedly include a drawback (i.e., a tax refund) and a reduction in bureaucratic paperwork needed to obtain export permits and documentation.

With petroleum revenues down as a consequence of weak international oil prices, Ecuador reportedly aims to increase its exports of food and agricultural products. Ecuador's 2015 budget (\$36.3 billion) is based on the assumption of a \$79.7/barrel price (down from \$86.4/barrel in 2014). With oil prices at approximately \$61.1/barrel (Brent crude), Ecuador is seeking to bump up agricultural exports until stronger oil output commences in 2016-17 to boost growth prior to the 2017 general election. Ecuador relies on crude for around a third of its budget, with the government sector accounting for 44 percent of 2013's gross domestic product (GDP – nominal) of \$94.5 billion (GDP – nominal estimated at \$106.8 billion in 2015).

Exports of non-traditional products (i.e., fresh flowers) will benefit from a five percent tax reduction based on freight-on-board (FOB) declared values, while tuna exports will see a three percent tax reduction. Exports of traditional agricultural products such as bananas will experience smaller tax breaks dependent on the export destination. For example, banana exports to the European Union (EU) will benefit from a two percent drawback, while exports to the Russian Federation and China will respectively enjoy a three and four percent tax drawback. Ecuadorian exporters of fresh flowers, palm oil, and canned tuna will also benefit from the elimination of the pre-payment of (anticipated) income tax.

Although details are pending, a key change aimed at reducing bureaucratic hurdles is the government's intent to issue sanitary registrations on a per factory basis (eliminating the need for product-by-product registrations). The government is also aiming to empower citizens to take legal action against (local) food manufacturers that fail to comply with product manufacturing specifications.

Ecuador is a large exporter of food and agricultural products to the United States. U.S. imports from Ecuador in calendar year (CY) 2014 (January-December) reached a record high of \$2.3 billion (highest import levels since at least CY 1970), up 17 percent compared to 2013. U.S. imports from Ecuador have growing steadily during the 2009-14 period, growing with a compound annual growth rate of over 8 percent. Calendar year 2014 U.S. imports of Ecuadorian shrimp reached a record high of \$901 million, up 37.5 percent compared to 2013 levels. Similarly imports of cocoa beans at \$236 million (up 42 percent) and nursery products at \$186 million (up 4 percent) also reached record highs. U.S. imports of processed fruits and vegetables at \$115 million were up almost 8 percent. U.S. imports of Ecuadorian bananas and plantains at \$399 million (down 1 percent), other edible fish and seafood at \$132 million (down 5 percent), and tuna at \$118 million (down 10 percent) fell in 2014 compared to the previous year.

Press sources highlight that Russia's economic crisis, may cause Ecuador to lose \$253 million in agricultural export revenues in 2015. Russia is a major buyer of Ecuadorian bananas and flowers.